Find out:

What is in store for the West Michigan Economy for 2006

How the Commercial Real Estate market will perform in 2006

If wholesome family movies raise more revenue than R-rated ones

How better school quality significantly improves home values

If commerce and the environment can coexist on the Great Lakes

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From the Dean...

Welcome to another edition of the Seidman Business Review (the “Review”). As the new global economy presents new challenges to all West Michigan’s businesses, the Seidman College of Business continues to provide cutting-edge, relevant, and real-world commentary focused on sharing existing and emerging business knowledge, legislation, and innovations, in ways that are relevant and compelling for West Michigan businesses and other public and private organizations.

Moreover, for this region to continue to thrive in the face of increased national and international competition, it must embrace and utilize fully the breadth and depth of its many resources. Grand Valley State University and the Seidman College of Business are especially proud to provide to this community significant resources of intellectual, cultural, and social capital, especially in light of the history of the University, and its founding by a group of business leaders. During its brief history Grand Valley has fulfilled very well its promise to the West Michigan community in the best sense of the expectations of those founders. The Review continues the fulfillment of that promise.

As usual, this edition begins with West Michigan economic and commercial real estate forecasts for 2006 and a performance review of West Michigan’s regional stocks. It also includes articles addressing a number of other very timely topics—from economics literacy, to healthcare savings accounts, costs and benefits of ocean vessel shipping in the Great Lakes, impending free trade agreement with Thailand, the impact of quality schools on housing values, profitability of family rated movies, and religion in the workplace.

I trust you will find this edition of the Seidman Business Review quite informative, even provocative. Seidman’s faculty experts excel at both teaching and applications-based research and implementation. I direct your attention to our “Panel of Experts,” on the last page of this issue. Perhaps, you can utilize Seidman’s faculty expertise to improve your operations and facilitate your business and management initiatives.

—H. James Williams
Dean, Seidman College of Business
Introduction
Our latest survey forecast for the greater Grand Rapids economy (Kent, Ottawa, Muskegon, and Allegan Counties) was conducted in November 2005. A survey was mailed to the CEOs of 675 organizations based on a representative sample. We tried to ensure that the sample represented different sectors of the regional economy and the geographical diversity of the region. Eventually, 151 organizations responded. The results of the survey need to be interpreted with caution because of the small sample size.

A brief methodological note is in order. Although we discuss the survey results in terms of averages, the data are also presented in a histogram format to show the entire distribution of responses. The employment, sales, and export numbers are more volatile as raw averages (when calculated without adjusting for outliers; that is, responses beyond one standard deviation). Since the average of a small sample is overtly influenced by extreme numbers, it is advisable to examine both the raw averages and the mean values generated without the outliers. The histograms, however, depict all the observations. Since individual responses vary significantly, the outliers in the data should be interpreted with caution.

Confidence Index
A primary goal of our survey is to historically track the overall business confidence of the Grand Rapids metropolitan area by a confidence index. Recall that this confidence index is scaled from zero % (no confidence at all) to one hundred % (complete confidence). The current results need to be interpreted in a larger historical context. During our surveys of the region for the last ten years, when the economy has been growing steadily, the confidence index has continued to depict a high level of confidence, generally above 80% for the private sector.

In the previous survey, the Confidence Index had risen modestly to 69.6% at the end of 2004, amid economic evidence that the economy was growing slowly. The results this year indicate that business confidence of the private sector is relatively lower at 65.3%. In past years, respondents have typically expected at least a marginal improvement in confidence for the following year. This year their expectations for 2006 are virtually flat at 65.1%. We continue to base our analysis on the forecasts made by the private sector. The government and nonprofit sector is slightly more optimistic this year (compared to the private sector) but their projection for 2006 is also flat. To some extent pragmatic optimism has been replaced by the notion that things are not likely to improve for awhile. In 2005, expectations of higher
interest rates, rising energy prices, the uncertainty due to the war on terrorism, and weak job growth prospects due to restructuring have further depressed expectations.

**Employment**

Amid well-publicized layoffs by major corporations in the West Michigan area, the regional labor market has been repairing at a slow pace. Figure 2 indicates projected employment growth for 2006. Overall, the growth in employment for 2006 is projected at 0.76% with outliers and at 0.50% without outliers.

Consider this expectation in the context of what we know about the regional and national economy at this time. Traditionally, the regional and national economies have followed similar trends in terms of the business cycle. However, this year the actual economic situation in Michigan is relatively worse compared to the national economy. West Michigan has traditionally relied more on the manufacturing sector. The manufacturing sector continues to decline as more consolidation in the workforce takes place, particularly in auto and auto-related industries. American auto manufacturers are losing market share and are saddled with high legacy costs. “The Michigan Economic Outlook for 2006–07” by University of Michigan economists George Fulton and John Crary predicts unemployment in the state to rise to 7.6% within a year, with manufacturing taking the major brunt of the adjustment process. Although the west side of the state will have relatively less negative impact compared to the east side, consolidation and job losses in manufacturing will still continue in West Michigan; however, more jobs will continue to be created in the services sector.

Employment growth in West Michigan during 2005 has been approximately one half of one %. The labor market in West Michigan has been showing very modest growth in 2005 and is not likely to improve significantly in 2006.

Our survey indicates that fewer respondents (64%) are likely to hire new workers in 2006 compared to last year when the corresponding number was 70%. Most respondents who intend to hire expect to employ permanent workers (76%) as opposed to temporary workers (24%). However, given that new job applicants will enter the labor market, net job opportunities will be scarce.

**Sales**

Sales projections made by respondents for last year were 3.2%. Sales over the holiday season have held up quite well. The projected average sales growth for 2006 is 3.3% without outliers and 2.6% with outliers (Figure 3). In times of robust economic growth, sales have grown at an annual rate of 5%. The expectations of our respondents indicate that it may take some time before this higher-trend growth rate is achieved. Note that our sales numbers are for the nominal sales of all goods/services produced in the West Michigan economy.

**Export growth**

Only about a quarter of respondents in the private sector export their output. The expected growth in exports has generally averaged higher than 5% in the late 1990s. Last year, exports were projected to grow at 4.4% without outliers and at 6.3% with outliers. In 2006, exports are expected to grow at 4.7% without outliers and 6.9% with outliers (Figure 4). Given the volatility in exchange rates and uncertain prospects for worldwide growth, it is not surprising that expectations for growth in exports are volatile. The adjusted average growth is probably more reliable. Overall, export growth projections are similar to last year’s expectations. Compared to domestic sales, export growth is still a bright spot for the regional economy. Since the expected growth of exports is based on a much smaller sample, it should be viewed with caution.
Expectations about when we will achieve a robust regional growth rate of 5% appear to have become more pessimistic. Last year, 32% of the respondents expected a robust growth rate of 5% within the next year. This year, only 16% expect a robust growth within one year. On the other hand, last year 39% of the respondents believed that we will achieve this robust growth after two years. This year, a higher percentage (47%) expect to achieve a robust growth rate after two years. These results indicate that, compared to last year, significantly more pessimistic expectations have set in about the return of good economic times. This result corresponds to the reduction in business confidence for 2006 compared to previous years.

What is the final word on the national and regional economy? At the national level, there is considerable fiscal stimulus. However, the FED is expected to continue to raise interest rates in a preemptive manner to reduce the risk of future inflation. Barring any unforeseen negative shocks, the expected real growth in output for 2006 will be approximately 3.5%. As we have seen in 2005, there will be considerable variation in GDP growth in the quarterly estimates. If this projection is realized, GDP would have expanded robustly for four consecutive years—certainly a sustainable growth pattern over an expansion phase of the business cycle. An improving job market is expected to create at least 2 million jobs next year.

At the regional level, given the fact that West Michigan has traditionally relied more heavily on manufacturing, and economic consolidation is likely to continue, the outlook is less optimistic. Employment growth will be, at best, modest (0.5%), and sales growth will be tepid and comparable to last year’s performance (3%). For those who seek external markets, export growth is a relatively bright spot (5%).

In conclusion, some brief comments about the long-term strategy for Michigan follow. The survey results demonstrate that some industries are able to capitalize on an expanding export market. More firms need to aggressively seek export opportunities. In spite of the recent problems in the manufacturing sector, eventually this sector will be more lean and competitive; however, new job opportunities in manufacturing are likely to be limited. At the same time, new industries and opportunities are emerging in other sectors: health care, bio-tech, construction, and specialized services. State resources need to be leveraged to position Michigan strategically in these growth sectors of the future. Whether we are seeking to re-vitalize the manufacturing sector or expand into the industries of the future areas, both strategies have a common platform: a highly skilled work force is critical. Expanding education and training opportunities should be a top national and state priority.

Acknowledgments
We are very grateful to all the organizations that participated in the survey.

Figure 4

Exporting Respondents’ Anticipated Change in Exports for 2006

![Graph showing the distribution of respondents' anticipated change in exports for 2006.]

Figure 5

When respondents anticipate a consistent growth rate around 5% (in % of responses)
West Michigan has endured and persevered through a considerable economic hardship throughout the past several years. Despite the odds, even the most troubled sectors of the commercial real estate industry have slowly recovered and are showing signs of further growth in the coming year. The following article will give a depiction of how the market has performed and where the recent trends are heading in the coming year. All information is based on a compilation of data collected for each division of commercial real estate for the 2005 year.

**Grand Rapids Industrial**

2006 will demonstrate that West Michigan’s resilient industrial marketplace offers opportunities for local companies engrafted with the region’s well-known entrepreneurial spirit.

The industrial market remains in a recovery phase with a sense of optimism for 2006. A continued up-tick in the economy is expected, as several local companies expand and additional governmental incentives become available. The pace of the local recovery will be restrained with few companies consolidating or sending their operations offshore. This mature market will recover with stability and health, drawing further interest from investors who have focused their attention in West Michigan.

Lacks Enterprises, an automotive supplier, continues its expansionary plans. Phase-one of its project was completed this past summer adding a 156,400 square-foot plating facility in Kentwood at an estimated cost of $17.5 million. Over the course of the next few years, the total project is poised to add approximately 420 jobs directly to the community with a ripple effect of about 820 jobs to the State of Michigan.

Additionally, the manufacturing sector may receive a lift from the passage of recent legislation in the U.S. House of Representatives on a bill now being reviewed by the Senate. This bill would provide grants, encouraging research, establishing scholarships, and strengthening the Manufacturing Extension Partnership (MEP) to help small and medium-sized manufacturers. MEP funding will be $110 million in fiscal year 2006, increasing by $5 million per year until fiscal year 2008.

The redevelopment of the 915,000 square foot Bosch facility in Kentwood reinforces the ability of the market to retain and attract advanced manufacturing firms. X-Rite, a hardware and software leader, is investing $24 million to refurbish 350,000 square feet saving over 400 West Michigan jobs and recruiting over 313 new high-paying jobs over the next five years.

Foreign competition and technological advancements are driving many domestic manufacturers to consolidate and go abroad to manufacture products competitively. Steelcase, a global furniture manufacturer, announced plans to downsize their North America operations by closing some of their new facilities in Grand Rapids over the next two years. Nearly 206 acres and approximately 5 million square-feet of existing buildings will be shutdown with potential plans for redevelopment.

Many companies are beginning to rethink lease-versus-own scenarios, due to increasing land costs and the abundance of available product with infrastructure in place. Leasing concessions are expected to decline in 2006 with the tightening of inventory. Notable increases in rental rates are not foreseen, as rents will remain relatively flat.
In 2005, SVN Equities sold a 1.86 million square-foot portfolio, to an out-of-state investor for $56 million, which indicates that investors see value in the Grand Rapids industrial market. This was in part due to lower prices, allowing a greater return on investment, and less competition than in major markets, making transactions easier to complete.

**Grand Rapids Office**

*Regional planners are looking forward to very exciting times in 2006 with accelerated investment in the West Michigan office market.*

The Grand Rapids office market straddles the cusp between recovery and expansion. Higher-than-usual vacancies in all submarkets have fostered tremendous opportunities for tenants to shop space or renegotiate existing lease contracts. In suburban markets, Class B vacancies prevail as landlords compete to fill buildings and retain existing tenants. However, well-financed owners are passing on the most aggressive tenants in lieu of offering lower rents or concessions.

In 2006, health care will be the hottest sector for growth in downtown Grand Rapids. Van Andel Institute will commence Phase II of its $120–$150 million medical research and education facility, creating 400 new jobs and adding approximately 280,000 square feet of space. Spectrum Health will construct the $78 million, 200,000-square-foot Lemmen-Holton Cancer Pavilion at the Butterworth Campus and the new $190 million DeVos Children’s Hospital.

With the community’s one billion dollar investment in this cluster of health and medical facilities and its new research and development in biotechnology and life sciences, will serve to promote new commercial and residential development in the urban core and help build the City’s reputation as a world-class medical community.

The 2005 completion of the M-6 Beltline connecting the I-96 and I-196 freeways along the southern portion of Grand Rapids sparked the growth of the next major office corridor creating new jobs and development. Metro Health is moving rapidly to complete its new hospital at Byron Center and M-6 while Saint Mary’s Health Care has followed suit and broken ground on a new 86,000-square-foot outpatient campus just north of 64th Street at Byron Center Avenue. Spectrum Health will anchor the new project at Wilson and M-6. The Beltline has also spawned an increase in owner-built projects and speculative development.

The economic impact of the 2005 hurricane season will bring an anticipated rise in utility costs and construction materials, requiring overall higher rents. In 2006, rents are expected to increase 5–10% for Class A product and 2–3% for Class B and C products.

![Vacancy and Absorption](chart)

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With the growth and expansion of area medical facilities, opportunities for 2006 are abundant. The largest segment of speculative development in 2006 will likely occur in the expanding downtown area of Grand Rapids, primarily Class A medical office product along Michigan Street. Regional planners are looking forward to very exciting times in 2006 with accelerated investment in the West Michigan Office Market.

**Grand Rapids Retail**

*Opportunities abound for developers of power centers, grocery-anchored centers, high-end retailers and restaurants.*

The West Michigan retail market is thriving, largely due to impressive economic growth statistics seen over the past 30 years. Large national retailers continue to be attracted to the Grand Rapids area because of its strong demographic profile of more than 1.3 million people in the four surrounding counties of the Combined Statistical Area (C.S.A.).

Retail vacancies hover in the single digits with high land prices and product demand exceeding construction resulting in escalating rents. Rental rates for Class A product is expected
to increase 5% in 2006, while Class B rents will remain steady. Rents have increased even more drastically in some newer developments.

Although downtown redevelopment has favorably impacted local retail markets, the strongest growth corridor in 2006 will be along the newly completed M-6 Beltline south of Grand Rapids. Numerous restaurant chains (i.e., Logan’s, Applebee’s, Panera Bread, Pizzeria Uno, Steak n’ Shake) and big box retailers (i.e., Meijer, Target, Staples, and Celebration Cinema Theatre) have already targeted this prime area for development. Further, all three regional hospital groups are planning future corridor expansion and that is likely to entice new retailers into the area.

New retail projects will continue to be developed well into 2006. From the expansion of Rivertown Parkway in Grandville to a potential lifestyle center, there are enormous opportunities for power centers, grocery-anchored centers, high-end retailers, and restaurants in West Michigan.

Landlords are currently reaping a good return on investment by refurbishing older shopping malls with offers of expanded build-out. Tenants will capitalize on opportunities in the south end of the market, specifically along M-6 and the older strip centers where lower rents are still available.

Investors are bullish over retail opportunities with demand for product exceeding supply in 2006. Strip centers will remain the hot product type for 2006. Conversely, sellers are comfortably positioned in the driver’s seat as they weigh offers from local investors.

**Grand Rapids Investment**

Despite rising interest rates overall, capitalization rates remained low in 2005 but are expected to move upward approximately 25 to 50 basis points during 2006.

The West Michigan investment community will confront recurring patterns of prior years: a limited supply of quality opportunities in 2006 coupled with aggressive demand for strong real estate investments. The one main difference impacting the investment arena in 2006 is upward-trending interest rates. The changing financial markets could transform the real estate investment landscape in West Michigan and throughout the nation. A cautious investor will be focused on rising interest rates. As the rates spiral upward, it will be interesting to note how investors evaluate their overall returns. Although increasing interest rates will affect cash flow, the net effect on cap rates may be tempered by a high level of demand for quality investment product.

Despite rising interest rates, overall capitalization rates remained low in 2005 but are expected to move upward approximately 25 to 50 basis points during 2006. This economic scenario clearly presents a prime opportunity for owners to consider selling while interest and cap rates are at relatively low levels. Though no immediate changes should be expected, the long-term expectations are that prices may be at their peak and in some segments may have already topped off.

Investor interest is strong in larger, more-stable investment properties. Out-of-state investors, considering adding to their portfolios from lower-tier markets like Grand Rapids, are adding to the demand for quality projects. This was the case when a California buyer utilizing a tenants-in-common (TIC) ownership strategy paid $56 million for the SVN Equities portfolio sale. TICs are increasingly being marketed as an alternative to the traditional 1031 exchange.

The Grand Rapids Central Business District (CBD) also attracted strong investor interest with the sale of three prominent office buildings in 2005: 50 Monroe Place, The Campau Building, and the Ledyard Building. All three high-profile property sales demonstrate and solidify the consensus that Grand Rapids is a viable market allowing investors a greater return on their dollar. As more out-of-state investors begin to consider alternatives to upper markets, Grand Rapids will emerge as a competitive and respected investment market.

The multi-family housing market is showing signs of recovery. Concessions are stabilizing, occupancy is rebounding, and there is no notable construction in the pipeline. With the continued growth in college and university satellite facilities, coupled with expansion at the Van Andel Institute, the Lemmen-Holton Cancer Pavilion, and the DeVos Children’s Hospital in the medical corridor, the increased demand for housing may add to the vibrant CBD housing market. The economic impact of these developments will create a ripple effect in job creation and demand for retail amenities. Rising home mortgage interest rates will increase construction of rental housing projects in the community.

The West Michigan investment community will confront recurring patterns of prior years: a limited supply of quality opportunities in 2006 coupled with aggressive demand for strong real estate investments. The one main difference impacting the investment arena in 2006 is upward-trending interest rates. The changing financial markets could transform the real estate investment landscape in West Michigan and
Local Stocks Generate Mixed Returns

Stocks of companies based in West Michigan usually outperform the national market indexes. That happened again in 2005, sort of. Table 1 below shows that West Michigan stocks outperformed both the Dow Jones Industrial Average and the NASDAQ Composite Index but fell short of the S&P 500 Index.

Also note that the market-weighted dividend yield (the annual return provided by dividends paid by the 16 companies) was about 1.2%. As a result, an investor owning all 16 stocks would have netted a return of 5.7% in 2005.

The auto industry’s woes continue to take a toll on local suppliers. Clarion, Riviera, and Gentex were hurt by declining orders and the prospect for a continued slowdown in auto sales, especially by Ford and General Motors. Because Gentex’s market is more diversified than either Riviera’s or Clarion’s and its product line is fairly unique, its stock managed a 5% gain in 2005 after tumbling 16% a year earlier.

Spartan Stores led the way in 2005, its second straight year of big returns. Its price rose 33% in 2004 and another 57% in 2005. The company is reaping the benefit of higher sales and productivity and lower debt. Company officials recently announced that Spartan will pay its first dividend in 2006 and that it has acquired D&W Food Centers. Both announcements boosted Spartan’s price toward the end of the year.

Universal Forest Products and Macatawa Bank followed up a strong 2004 with an even stronger 2005. Universal continues to benefit from great acquisitions and record high prices for lumber and building products. Macatawa’s earnings are increasing rapidly as it continues to grow and benefit from economies of scale.

Independent Bank’s stock price fell 4%, and in the grand scheme of things, that’s perhaps the most puzzling result in 2005. After its stock price rose an average of 40% per year for three consecutive years, it hasn’t changed much since the beginning of 2004. Yet it continues to have record earnings, its rates of return on equity and assets are high, and its price/earnings ratio is lower than most other publicly traded bank stocks. It will be an interesting stock to follow in 2006.

Table 1 shows just how volatile stock returns are. Since the double-digit returns of 2003, stocks — both on the national and West Michigan regional level — have lagged their long-term average returns. Does that mean 2006 will be the year we catch up with the long-term trend? Hardly. All we can be sure of is that there will be good years and not-so-good years. Trying to predict how a year will turn out has driven many economists and Wall Street pros crazy.

As the years go by, however, the good and bad years have averaged out to around 12% per year. That’s better than bonds, better than certificates of deposit, better than real estate, and better than the rate of inflation. Unless you feel you can make accurate predictions many years into the future, the most reasonable approach to investing is to assume the future will turn out about the same as the past has — roughly 12% per year from a diversified stock portfolio. So keep at least some of your investment money in stocks, and pay attention to West Michigan companies. Many of them have done exceptionally well for years, and as a group, have outperformed the national indexes in 10 of the past 12 years.

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<thead>
<tr>
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<tbody>
<tr>
<td>West Michigan Index</td>
<td>4.5%</td>
<td>4.8%</td>
<td>37.1%</td>
</tr>
<tr>
<td>Dow Jones Industrial Average</td>
<td>-.1</td>
<td>3.1</td>
<td>25.3</td>
</tr>
<tr>
<td>S&amp;P 500 Index</td>
<td>3.0</td>
<td>9.0</td>
<td>26.4</td>
</tr>
<tr>
<td>NASDAQ Composite Index</td>
<td>1.1</td>
<td>8.6</td>
<td>50.0</td>
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The West Michigan Index consists of 16 publicly-traded companies headquartered in West Michigan. Each company’s return is weighted by the number of shares of common stock outstanding, the same procedure used in the S&P 500 Index and the NASDAQ Composite Index. The DJIA’s Index, however, uses a simple unweighted average return.
## Table 2

**LOCAL COMPANY RETURNS**  
01/01/05 through 12/31/05

<table>
<thead>
<tr>
<th>2005 PRICES</th>
<th>PRICE CHANGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening</td>
<td>Closing</td>
</tr>
<tr>
<td>----------------</td>
<td>---------------</td>
</tr>
<tr>
<td>Spartan Stores Inc.</td>
<td>6.64</td>
</tr>
<tr>
<td>Macatawa Bank</td>
<td>28.08&lt;sup&gt;1&lt;/sup&gt;</td>
</tr>
<tr>
<td>Universal Forest Products</td>
<td>43.40</td>
</tr>
<tr>
<td>Community Shores Bank</td>
<td>12.65</td>
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<tr>
<td>Steelcase</td>
<td>13.84</td>
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<tr>
<td>Knape &amp; Vogt</td>
<td>13.05</td>
</tr>
<tr>
<td>Wolverine World Wide</td>
<td>20.95&lt;sup&gt;2&lt;/sup&gt;</td>
</tr>
<tr>
<td>Gentex Corporation</td>
<td>18.51&lt;sup&gt;3&lt;/sup&gt;</td>
</tr>
<tr>
<td>Mercantile Bank</td>
<td>37.62&lt;sup&gt;4&lt;/sup&gt;</td>
</tr>
<tr>
<td>Herman Miller, Inc.</td>
<td>27.63</td>
</tr>
<tr>
<td>Independent Bank</td>
<td>28.41&lt;sup&gt;5&lt;/sup&gt;</td>
</tr>
<tr>
<td>Meritage Hospitality</td>
<td>5.07</td>
</tr>
<tr>
<td>Perrigo</td>
<td>17.27</td>
</tr>
<tr>
<td>X-Rite Inc.</td>
<td>16.01</td>
</tr>
<tr>
<td>Riviera Tool Company</td>
<td>1.40</td>
</tr>
<tr>
<td>Clarion Technologies</td>
<td>0.29</td>
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</tbody>
</table>

<sup>1</sup> Price adjusted for a 15% stock dividend May 9.<n
<sup>2</sup> Price adjusted for a 3:2 stock split February 1.<n
<sup>3</sup> Price adjusted for a 2:1 stock split May 9.<n
<sup>4</sup> Price adjusted for a 5% stock dividend July 14.<n
<sup>5</sup> Price adjusted for a 5% stock dividend September 1.
How School Quality Impacts Housing Values: Some Regional Evidence

John Reifel, Ph.D., Associate Dean, Department of Economics, Seidman College of Business
Paul Thorsnes, Ph.D. Department of Economics, University of Otago, New Zealand

Introduction
Most consumer goods have to stand the test of the market; firms that price too high or produce goods of a quality that is too low generally fair poorly. One might think that the goods and services supplied by local governments avoid the market test because governments can force us to pay for them through our taxes. But Charles Tiebout, in an influential article published in 1956, showed how local public goods and services, such as public schools, police, and local environmental quality, also have to withstand the rigors of the market.

The idea is simple. Like private businesses, local governments decide the quantity and quality of the goods and services they supply to their customers; i.e., their constituents, and pay for these goods and services at least in part with revenues from local income, sales, and property taxes (they also receive payments from higher levels of government). If a householder doesn't like the combination of public services and taxes chosen by his elected representatives, he can either lobby for change or pick up and move to another service district. If enough people move out of a district, house prices fall, tax revenues decline, and local officials find themselves in much the same position as a private business that has made some mistakes: revenues are below expectation and shareholders are upset.

Tiebout hypothesized that if households are mobile enough to be able to shop around for service districts in which to live, then market pressure will be brought to bear on the local agencies that supply the services. Those who want more safety, cleaner streets, and higher quality public schools and are able and willing to pay the higher local taxes required will locate in cities that provide that mix. The market thereby enforces discipline on local government agencies much as it does on private businesses.

Of interest is the extent to which Tiebout's hypothesis holds water. Tests of household sorting by preferences for public services can be either direct or indirect. The direct approach involves surveys to see if householders' preferences about the quality and level of public services and taxes are relatively similar within service districts and different across service districts. The indirect approach takes advantage of the house-price differentials that Tiebout sorting generates. Households bid up house prices in districts that provide desirable combinations of public services and taxes. So differences across cities in the selling prices of otherwise similar houses indirectly indicates Tiebout sorting.

The GR/EGR Housing Price Differential
We test for Tiebout sorting using both the indirect and direct approaches by collecting both house price and survey data from an unusual subdivision. The subdivision, called Ottawa Hills, was platted in the early 1920s, occupies a nearly square area of 160 acres, and contains 448 houses. The property was a golf course prior to development, and its uniquely curved streets were influenced by the original fairways. The original lots in the subdivision were marketed to relatively well-heeled households, and the deeds included requirements for minimum amounts to be spent on construction of the house. The high quality of the houses and neighborhood distinguish the subdivision from its somewhat older neighbors.

But it isn't the subdivision's high quality that attracted us, it's that the subdivision is neatly divided in half by municipal and public school district boundaries. The subdivision is bounded on its north and south sides by Franklin and Hall and on its west and east sides by Giddings and Plymouth. The boundary between the cities and school districts of Grand Rapids (GR) and East Grand Rapids (EGR) evenly divide the subdivision into two rectangular 80-acre parcels. Thus, we have the opportunity to observe what has happened over a long and interesting period of time to sets of very similar houses in what are, at this point, very different public service districts. To put it more technically, the subdivision allows an unusually high level of control over the many house and neighborhood characteristics that influence house prices.

We started by collecting data on house characteristics. Information about the characteristics of the 448 houses in the neighborhood was obtained from the Assessors' Offices in GR and EGR. Examination of that data led us to select a sample of 100 similar houses on which we could concentrate our study, 50 in GR and 50 in EGR. All of the sample houses were built between 1923 and 1935, have two stories, at least three bedrooms, brick veneer, and significant amounts of ornamental trim. None of the houses are on the relatively busy boundary streets and all are located north of Alexander Road, since those built south of Alexander on the EGR side are often newer and consist of more diverse architectural styles. For the 100 houses in the sample, detailed information was obtained on year built, lot size, floor space, number of bathrooms, and garage size. Assessor records were also used to update floor space due to renovations over time.

We then collected sale prices on the sample of houses. Price data can be obtained from public records kept on file in the County building, but is difficult to access. Fortunately, TransNation Title Insurance Company has the data in a
more user-friendly format and agreed to let us peruse their records and, as important, provided expert advice on how to interpret the information on the records. We were able to go back as far as 1949. Two of the houses did not sell over the 53-year period, so they were dropped from the sample. We found 339 arms-length (buyer and seller having different surnames) sales for the 98 houses over the 1949–2002 period, an average of 3.6 sales per house and almost 7 sales per year. It surprised us that the rate of sales per year changed very little over the 53-year time period.

The 1949 to 2002 time period is almost ideal for our purposes. Grand Rapids expanded to provide urban services to most unincorporated developing areas until the early 1960s. Ironically, suburban service districts were less important when Tiebout published his paper than they are now. This changed in the 1960s, when many households took advantage of highway improvements to move to suburban areas, thereby making room for an influx of relatively poor households into the generally older central-city houses and neighborhoods. Economists refer to this process as “filtering;” houses tend to filter to relatively poorer households as they age (the same thing happens with cars). Because those moving to suburban areas preferred to form their own services districts, the migration pattern created fiscal distress for central cities that resulted in a relative decline in the quality of the services they could provide. Thus, the public services supplied to each side of the subdivision were probably of similar quality prior to the 1960s, and have probably differed since. Of interest is the corresponding response in house prices.

Using statistical regression analysis, we constructed price indices for a house with a standard set of characteristics on each side of the subdivision. The price indices reveal that this standard house sold for about the same amount on both sides of the boundary up through the mid-1960s, consistent with our hypothesis that the packages of city services and taxes were about the same in GR and EGR at that time. Toward the end of the 1960s, houses on the EGR side started rising in price. In the mid-1970s house prices on the GR side began to rise parallel to those in EGR. Since house prices on the EGR side had begun rising earlier, they were selling at a premium. That premium has varied around 40% of the price of a typical house on the GR side, and the premium has persisted through 2002. The average selling prices for a typical house in the early 2000s was about $259,000 on the GR side and about $358,000 on the EGR side. The premium to live in EGR, just a short walk away across an invisible line, is close to $100,000!

What does this premium signify? If the houses and neighborhoods on each side of the boundary are indeed of similar quality, then the premium appears to represent the market value of the differences in public services and taxes across the boundary. It turns out that tax rates are lower on the GR side, even though city residents pay a city income tax in addition to property taxes. So, for the households in this market, the value of the difference in the quality of city and school district services apparently exceeds $100,000!

**Household Preferences**

The price differential, taken by itself, provides indirect evidence of Tiebout sorting. Householders who value, especially highly, the public goods and services offered in East Grand Rapids compete for houses in EGR by bidding up their prices. Conversely, households who have less interest in the characteristics of EGR public goods and services can get a significant price break on the similarly nice houses in the GR side of the Ottawa Hills subdivision.

We wanted to look more directly at the characteristics of the households on each side of the subdivision. We started by looking at the demographic characteristics reported in the 2000 census block data. We expected to see significant differences; for example, young and childless households and retired couples might find the general location and house quality desirable, but balk at the higher taxes and house prices in EGR. Census demographics are almost identical on both sides of the subdivision. The only difference is slightly more racial diversity on the GR side. This is puzzling and a bit troubling because researchers often use census demographics as indicative of preferences to test Tiebout hypotheses.

We thought we might solve the puzzle by asking households about their preferences. We sent a mail survey to 200 households, 100 on each side of the city boundary asking about their preferences. We sent a mail survey to 200 households, 100 on each side of the city boundary asking about their preferences. We expected to see significant responses on the GR side reveal some similarities, but also some glaring differences. As in EGR, almost all the respondents were attracted by the high quality houses and attractive neighborhood. Unlike EGR, many commented on the relatively low price for the house and neighborhood package. Some were attracted by the relative diversity in the neighborhood and many like the strong sense of community.
in the neighborhood. Of interest, however, is that about 60% of the households with children chose to send them most of the time, to parochial schools (compared to less than 10% in EGR). Most of these households reported that proximity to parochial schools was an important attraction of the neighborhood. About a third of those who sent their children to public schools did so in the 1950s and 1960s, before the decline of public school quality. Those currently with school-age children often send them to GR public magnet schools rather than to a neighborhood public school.

We see these results as rather strong and interesting evidence of Tiebout sorting. The similar houses and neighborhoods on each side of the boundary attract demographically similar households, but the households who choose the GR side tend to have weaker preferences especially for the characteristics of EGR schools. Some of these households are retired or childless. Many value the proximity to parochial or public magnet schools. The market appears to have worked to accommodate these differing preferences.

The Housing Price Differential Revisited

But what about the differences in the quality of city services? It turns out that the residents on the GR side have formed an active neighborhood association. The association lobbies the city government for prompt delivery of public services, conducts neighborhood clean-up campaigns, and holds an annual neighborhood party, among other activities. The quality of these services may not quite match those of EGR, but they make up much of the difference.

These conclusions have implications for the interpretation of the $100,000 house-price differential. The quality of the services actually consumed by the households on the GR side appears to roughly match that of the services on the EGR side. Many of the households on the GR side make tuition payments that are avoided by EGR residents. The price differential compensates for these payments—the higher cost of obtaining high-quality services on the GR side capitalizes into house prices. This means, of course, that the market value of the difference in the quality of GR and EGR public services is even bigger than we initially thought: those households willing to send their children to tuition-charging schools were able to outbid those willing to consume GR public services. The price differential would be bigger in the absence of the parochial and magnet schools, though we cannot tell how much bigger.

2 We are indebted to Monte Reinert, Eileen Mueller, and members of the staff at TransNation Title Insurance Company for their invaluable assistance.
Introduction
Concerned with the limited number of family oriented films currently produced each year and an increase in the number of films containing sex and violence, The Dove Foundation is interested in determining which films, by MPAA rating, produce the greatest profits as well as the highest rates of return on investment (ROI).

In 1998, the Foundation commissioned a study of all theatrical films rated by the MPAA that were released to 800 or more U.S. screens from January 1, 1988 through December 31, 1997. Kagan Media Appraisals, Inc. compiled the data as requested by The Dove Foundation. The "1999 Dove Profitability Study of MPAA Rated Movies" pointed out that, while the major motion picture studios produced 17 times more R-rated movies than G (1291 to 73 respectively), the average G-rated movie made eight times the profit as its R-rated counterpart ($93 million vs. $11 million, respectively).

Now that five years have passed since the initial study, Dove Foundation executives felt it was time to produce an updated report of the initial study. This study uses a slightly different database than the 1999 study. Since exhibitors have dramatically increased the number of multiplexes over recent years, the number of screens is more difficult to track than the number of theaters. Therefore, this report tracks the 200 most widely distributed films each year based on the number of theaters.

The films used in this study cover a fifteen-year period from 1989 through 2003. In order to produce an accurate rate of return, all cost and revenue data were limited to the first 24 months from the date of each movie release. The data for the current study was compiled and provided by Kagan Media Appraisals, Inc. The first part of the analysis examined the data to identify how frequently each production company produced films in each rating during the study period. The second part of the analysis examined the profitability of films by each rating for the study period. Profitability is reported both in aggregate figures and per film.

Ratings Categories by Studio
One function of this study is to identify changes that took place after The Dove Foundation report was released in January of 1999. There are significant differences in the number of G- and R-rated films released before and after the 1999 study.

Table 1 (page 16) covers the period of 2000–2004. It includes the quantity, percent of self, and percent of total films released by each of the twelve largest theatrical distribution companies broken down into MPAA ratings.

Buena Vista (Disney) produced the largest proportion of G (52.27%) and PG films (16.26%) released during the study period. It also ranked first with nearly one-half (47.8%) of its own films produced in the top two family-oriented ratings categories: G (25.6%) and PG (22.2%).

Miramax/Dimension (a Disney subsidiary) released the most R-rated films in this period with 61 titles or 11.4% of the total. Warner Bros. was close behind with 50 titles or 11.19%.

Quantity vs. Profitability
Figure 1a illustrates variations in the annual average number of movies by MPAA rating before and after the release of Dove's initial Study on January 4, 1999. The average number of R-rated films dropped 11% from 105 to 93. This compares to G-rated movies which increased from an average of 7 to 10, up 43%. PG-13 increased from 50 to 75 films per year, up 50%. PG films dropped from an average of 36 to 21 or 42%.

Figure 1b (page 17) demonstrates a consistent increase in average profits per film in all categories beginning 2000. The profits of an average R-rated film increased from $3 million to $18 million. Comparatively, the average G-rated film profits grew from $74 million to $92 million. The changes are probably due to the increase in ticket prices coupled with a decrease in certain manufacturing costs such as DVDs compared to VHS tapes.

Rate of Return (ROI) per Film by Category
An important consideration when computing rate of return on investment (ROI) is the time value of money. Since the study includes only revenue generated within two years of each film’s release date, the Discounted Cash Flow Analysis method was not used in this study. The average rate of return...
per film was determined by dividing the average net profit per film in each category by the average cost (negative costs, print & advertising, worldwide video costs). The revenue was determined by adding the domestic and foreign box office (after exhibitor’s cut), worldwide television revenue, and worldwide video revenue.

Figure 2a (page 17) shows the average rates of return for the films from 2000–2003. These are the years following The Dove Foundation’s initial 1999 study. G-rated films averaged 94.5% ROI followed by PG (72.6%), PG-13 (43.6%) and R (28.7%). Figure 2b breaks down the average rates of return for each year.

Table 1

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**Worldwide Box Office, Television, and Home Video Revenues**

Figure 3 (page 17) compares the average gross revenue per film and the relative roles played by worldwide box office, television, and home video sales. Two realities are clearly represented in this graph. Worldwide home video revenue surpasses worldwide box office revenue (after deducting the exhibitors’ cut) in all MPAA categories. Movies with a G rating report the highest total revenue per film, the largest portion of which was from video. PG-13 worldwide home video sales were slightly higher than PG movies. R-rated per-film revenues trailed all other categories by a significant margin.
Conclusion

This study examined the profitability of the movies produced based upon their MPAA rating. The report tracks the 200 most widely distributed films each year based on number of theaters for a period of fifteen years from 1989–2003. The study found that the movie industry produced nearly 12 times more R-rated films than G-rated from 1989–2003 (1533 and 123 respectively), but the average G-rated film produced 11 times greater profit than its R-rated counterpart ($78,982,000 and $6,939,000 respectively).

G-rated films also produced an average rate of return on investment (ROI) three times greater than R-rated films (94.5% vs. 28.7%). The major source of revenue for the G-rated movies was from worldwide video revenue. This highlights the fact that movies that have a broader appeal to the American family have greater revenue and profitability through video sales. This is especially important in today's market place where admission trends at the theaters have declined for the past two years while DVD sales have dramatically increased in the past five years (MPA study 2004).

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1 This study was conducted for The Dove Foundation of which Dick Rolfe is founder and chairman. We would like to thank The Dove Foundation for its financial support towards purchasing the raw data for the study from Kagan Media Appraisals, Inc.
The Cost-Benefits of Ocean Vessel Shipping in the Great Lakes: Value to Industry vs. Environmental Damage

Seidman College of Business

The Great Lakes-St. Lawrence Seaway Maritime System, depicted in Figure 1, has been extremely important to the development of the North American mid-continent and continues to play a vital role in the West Michigan economy. The System allows ocean vessels to carry freight between the Lakes states and overseas destinations, and also allows for movement of goods on laker vessels both wholly within the Lakes and between the Lakes and eastern ports such as Montreal and Quebec City. However, the System’s overall importance to the region’s economy has been reduced, and the nature of the contribution has moved towards intra-lake commerce and away from Seaway ocean-related commerce.

Changes in the Lakes-Seaway System’s economic role in the region, and new concerns about invasive species suggest a need for reassessment of the System. Given the level of economic and environmental damage that has been caused by existing and potentially new invasive species, and the fact that most aquatic invasive species have been introduced to the Great Lakes by transoceanic waterborne commerce ballast water, it is important to assess the cost-benefits of continued use of the Seaway System for ocean vessel maritime commerce. The focus of the analysis needs to be on ocean vessel commerce because aquatic invasive species are introduced by ocean going vessels and not by laker vessels, defined as those vessels that remain within North America.

Ocean Shipping Traffic Volumes and Significance
In 2002, 12.3 million metric tons of ocean vessel tonnage passed through the section of the Seaway west of Montreal and into and out of the Lakes. This ocean vessel tonnage represented just 6.8% of the total Great Lakes and Seaway volume of 180 million tons that year. The other 167.7 million metric tons of system tonnage moved on laker vessels, not ocean vessels. The ocean tonnage moved on 1,137 ocean vessel passages through the Seaway, with 569 up-bound moves and 568 down-bound, or a little less than two moves per day. In 2003, 9.6 million metric tons moved into and out of the Lakes on ocean vessels and 11.0 million metric tons moved in 2004. The peak year for ocean traffic into the Lakes was in 1978 with 23.1 million metric tons.

In contrast to ocean vessel tonnage, laker moves totaled 17.7 million metric tons in 2002. Total Seaway laker and ocean tonnage was 30.0 million metric tons in 2002. Overall, the traffic data suggests that ocean shipping volumes are a relatively small portion of overall Lakes tonnage.

For West Michigan the role of ocean shipping is even less significant. For instance in 2002, only one West Michigan port was visited by ocean ships, that being Ludington, with just one arrival. In other years, there may have been a few more vessels; however, the number is surprisingly small.

While the public may believe that ocean-going container ships move container loads of manufactured goods in and out of the lakes, in reality that is not the case. In fact, there were no container ship passages into and out of the Lakes in 2002, and there has not been any such shipping in many years. Very few of the world’s container ships would even fit in the System today given that the Seaway Locks were undersized even at the time they were built and container ships have grown longer, wider, and deeper since the Seaway opened in the 1950s.
What does move through the Seaway is ocean-going bulk cargo ships carrying primarily imported specialty steel into the Lakes and grain back out to overseas destinations. For those ships that did enter in 2002, the ocean freight consisted of 2.1 million tons of Canadian grain exports from Thunder Bay, 2.0 million tons of U.S. grain exports from Duluth, and 4.6 million tons of U.S. and Canadian steel imports. These goods accounted for some 70% of the 12.3 million tons of ocean tonnage. The remaining 3.6 million tons consisted of pulp, minerals, chemicals, fuels, sugar, and some other port grain imports and exports.

In terms of Lakes ocean shipping, it is important to note that this route accounts for just 1.9% of all U.S. grain exports and 10.9% of all Canadian grain exports. For the U.S., the ocean route to the Lakes also accounts for just 6.3% of all iron and steel imports, while for Canada the ocean direct route accounts for 21.4% of total steel imports. It should be noted, however, that laker vessels also carry a similar volume of U.S. and Canadian grain exports from the upper lakes to Montreal and ports below, where the cargo is offloaded to ocean-going vessels.

**Transportation Cost-Benefits of Ocean Shipping**

In order to estimate the transportation cost benefits of ocean shipping into and out of the Lakes, it was necessary to estimate the door-to-door costs of the 12.3 million tons of goods moving by ocean vessel including the costs related to North American inland shipping, transfer handling costs, and ocean shipping costs. The next step was to evaluate each of the alternative options for shipping these goods including rail and laker moves for Canadian grain exports; rail, barge, and laker for U.S. grain exports; and rail, barge, or truck for steel imports. For each of these options, the door-to-door cost per ton was estimated. The third step was to estimate the “most likely” mix of alternative means of shipping each of the three major categories of goods. The “most likely” alternative was based in part on how the goods move during the three months of the year when the Seaway is closed and, in part, on the estimated costs for each alternative route/mode. The costs for the “most likely” scenario for each major commodity group could then be calculated and compared to the current ocean vessel costs. Over all, the analysis involved review of 95 prior reports and articles on this subject and interviews with 58 organizations.

The analysis indicates that ocean vessel shipping saves U.S. and Canadian shipper/receivers US$54.9 million per year. The cost comparisons for each commodity are shown in Table 1 below. If ocean vessels were not available, the largest impact would be associated with steel product imports and the least impact

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<td>16.6</td>
<td>37.1</td>
<td>29.2</td>
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</tr>
<tr>
<td>US$ Cost per Metric Ton</td>
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<td>US$ Cost per Metric Ton</td>
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<tr>
<td>**Ocean Savings per Metric Ton (US$)</td>
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<tr>
<td>**Ocean Savings (Million of US$)</td>
<td>$7.3</td>
<td>$3.3</td>
<td>$26.4</td>
<td>$17.9</td>
<td>$54.9</td>
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</tbody>
</table>

*Represents costs associated with existing ocean vessel movements into the Great Lakes.

**Represents costs associated with alternative rail, truck, barge, and laker vessel mode/routes to carry cargo previously carried by ocean vessels.
would be associated with the grain exports. The “all other”
category would face the second biggest impact.

In order to fully understand the implications of the transporta-
tion cost savings provided by ocean vessels entering the Lakes,
it is important to have some perspective on the significance of
the numbers. The total savings represent a 5.9% benefit when
compared to the estimated US$938.3 million total direct ocean
door-to-door transportation costs for these goods.

Economic and Environmental Costs
of Invasive Species in the Great Lakes

A total of 170 invasive species have been introduced into the
Great Lakes to date. At least 43 invasive species have been
introduced since the opening of the Seaway System in 1959,
73% of which have been attributed to discharge of ballast
water. However, another transmission vector for invasive
species is through ships’ hulls and other surfaces fouling.
This is an important vector to consider since treatment of
ballast water, an approach currently being developed, does
not address hull fouling by invasives. In addition to past
contamination, scientists indicate that invasive species
continue to enter the Great Lakes at a rate of approximately
one new species per year. While the authors have conducted
no calculations of invasive species costs and are not experts
on such costs, a literature review of scientific journals suggests
minimum costs are in the range of $200 million to several
billion dollars. The wide range in estimates is due to variation
in species considered and in types of damage evaluated.

Conclusions

In conclusion, ocean shipping on the Great Lakes generates
a transportation cost savings for Canadian and U.S. shipper/
receivers of US$4.9 million per year. This cost savings
represents 5.9% of the current door-to-door transportation
cost for the goods presently moving via ocean shipping in the
Great Lakes. The relatively small benefit is due to the limited
volume of goods currently moving on ocean vessels, just 12.3
million tons, and the relative competitiveness of alternative
routes/modes for moving the goods. Finally, it should be
noted that very little, if any, of the savings relate to the West
Michigan economy, in that only a few ocean ship calls per
year are made on West Michigan ports.

The best estimates of the costs of existing invasive species
in the Great Lakes are in the range of $200 million to
everal billion dollars per year. While it is difficult to say
what the costs of future invasives might be, scientists
estimate that the Lakes are seeing about one new invasive
species per year and that this trend is likely to continue
absent more serious regulation. These costs have an
especially significant impact on West Michigan given
the region’s growing Lakes related tourism and fishing
industry, and its importance to the area economy.

The cost-benefit calculation then can be estimated at a
minimum of about 4:1 on a conservative basis, meaning that
for every dollar in transportation cost savings, there are at least
$4 in current invasive species cost impacts. For West Michigan,
the cost-benefit ratio is far worse, in that there are very small
benefits, and a disproportionate level of negative environmental
and tourism related costs. These North American-wide and
regional cost-benefits should be considered by bi-national,
national, and state/provincial regulators.

The most commonly discussed method for controlling
invasive species is treatment of ballast water. However, this
approach would not address vectors related to “hull fouling”
of ship sides and piping. A more comprehensive approach
would be for regulators to restrict ocean vessel entry while
continuing to allow lakes to move into and out of the Lakes
as they do not pose a significant invasive species threat.
However, if ocean shipping had to pay the full societal costs
of existing or future invasive species, or in economic terms,
the externality costs, it is possible that ocean ship owners
would decide on their own that entering the System was
not a productive use of their assets. It is also important
to note that the U.S. Seaway section currently does not
impose passage cost recovery tolls on ships as is the case
in the Canadian section. Should such tolls be charged, this
would further limit the transportation cost savings currently
enjoyed by shipper/receivers of goods and would serve as an
additional disincentive to ocean ships entering the Lakes.
Finally, if history is any indicator, one might expect that
the Seaway’s competitiveness will remain limited given the
System’s dimensions, while other modes, such as rail, are
likely to continue to make competitive advances in both
cargo capacity and productivity, thereby further eroding
the System’s competitiveness. While the authors take no
policy position on how to control the System, policymakers
should consider the benefits and costs of ocean shipping
in deciding how to regulate the industry in the future.

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Transportation Consultant.

References

1 Holeck, Kristen T., et al, “Bridging Troubled Waters: Biological Invasions, Transoceanic Shipping, and the Laurentian Great Lakes,”
3 Holeck, Kristen T., et al., “Bridging Troubled Waters: Biological Invasions, Transoceanic Shipping, and the Laurentian Great Lakes,”
Title VII of the Civil Rights Act has for 41 years been the law that governs religious discrimination in the workplace. For some Michigan employers, that may be about to change. On November 2, the Michigan House of Representatives passed Bill 972, known as the Conscientious Objector Policy Act. The bill will now go to the Senate, where is it also expected to pass. It is not known whether the governor will sign the bill.

Title VII of the 1964 Civil Rights Act forbids employment discrimination on the basis of religious beliefs or practices; no employer can refuse to hire a person based upon his/her religion or religious beliefs. In addition, Title VII imposes an obligation that employers accommodate religious beliefs unless doing so would cause undue hardship. The accommodations most frequently requested by employees concern time off for religious observance, wearing religious dress at work, and less frequently, release from job duties that violate religious beliefs. Courts have traditionally ruled that employers have to accommodate these requests unless doing so would violate a collective bargaining agreement, cost the employer an unreasonable amount of money, lower efficiency, or unduly burden other employees. Through the years, rulings by various courts have indicated that although an employer is expected to try to accommodate religious beliefs, companies do not have to go to extreme lengths in order to do so.

In the past few years, however, actions by pharmacists have led a few states to conclude that some employees need additional and specific accommodation of their religious beliefs. Pharmacists have begun to refuse to fill birth control prescriptions because contraception violates their religious or moral beliefs. Some pharmacists have refused to dispense any kind of contraceptive; others will fill such prescriptions for married women but not single women. Some have accompanied their refusal with a lecture and a few have confiscated the prescription, refusing to give it back to the customer or transfer it to another pharmacy. Seizing the prescription is blatantly illegal, but the rest of the actions have opened a debate. Some have championed the right of the pharmacists to practice their religious beliefs in the workplace. Opponents argue that these actions are denying women the right to health care; they contend that the writing of a prescription is a decision between doctor and patient, and a pharmacist has no right to insert his/her religious beliefs into that decision. The situation has led to political battles; some states are seeking to protect the pharmacists and others are introducing bills that will require pharmacists to dispense all prescriptions.

As a reflection of this disagreement, Bill 972 was introduced in the State of Michigan. The bill provides that a “health care worker may assert as a matter of conscience an objection to providing or participating in a health care service that conflicts with his or her sincerely held religious or moral beliefs.” The health care worker can assert his or her conscientious objection at any time he/she deems it necessary; the objection does not have to be revealed at the time of hire. Once an employer receives notice via a written objection, that employer can not require the health care worker to provide or participate in the objectionable health care service. Employers covered by the Conscientious Objector Policy Act include health facilities and agencies; physicians’ offices; teaching institutions; pharmacies; and corporations, partnerships, or sole proprietorships that provide health care service to individuals.

The bill does stipulate that a conscientious objection cannot be used in an event that requires immediate action to prevent the death of the patient. In addition, a health care worker cannot “assert an objection to providing or participating in a health care service based on the classification of a patient…protected under the Elliot Larsen Civil Rights Act” (i.e., the Michigan Civil Rights Act). The Michigan Civil Rights Act prevents discrimination on the basis of race, gender, color, religion, national origin, age, marital status, disability, family status, and height/weight. Sexual orientation is not protected in the State of Michigan.

What might all this mean for health care employers in Michigan? Probably the most contentious result is that since sexual orientation is not protected under the Elliot Larsen Act, a health care worker will be able to refuse to treat gays and lesbians because he/she morally objects to their lifestyle. The question about pharmacies that started the whole thing will be answered. No retail business could mandate that its pharmacists fill contraceptive prescriptions. If another pharmacist is on duty and willing to fill the prescriptions, the duty could be passed to him/her; but having more than one pharmacist on duty occurs only in the busiest and largest pharmacies at certain times of the day. If the bill passes and a pharmacy employs a conscientious objector, the pharmacy might have to notify its customers that it does not fill birth control prescriptions. A customer who could not get a contraceptive prescription filled at a pharmacy is likely to take all her prescription business elsewhere. Therefore, under Title VII, it could have been argued that an employer would not have to excuse a pharmacist from filling birth control prescriptions because such an arrangement would create
an undue hardship for the business. The Conscientious Objectors Policy Act makes no provision for a business to claim undue hardship unless the service that is being objected to claims 10% or more of the health care worker's time. Even in this circumstance, the health care worker must be given at least six months notice before termination of employment.

Finally, what about the rights of consumers? Proponents of Bill 752 observe that in a market economy, consumers can make choices. If a health care provider won't provide a service, then the consumer is free to take his/her business elsewhere. Of course, democracies regularly place limits on the free market. The market argument also assumes that customers do indeed have options, which may not be as true for people who live in small towns, for people who must pick up prescriptions after major retail hours, or for any other situation where the customer has a limited choice of pharmacies or health service providers.

If the bill becomes law, it is difficult to predict what its consequences will be for consumers and health care employers. No one knows how many health care workers will refuse to serve gays and lesbians or to provide some other health care service. Michigan employment laws usually don't attract national attention, but if passed, the Conscientious Objectors Policy Act will be one that is watched.
Health Savings Accounts
A New Approach to Control Rising Health Insurance Premiums

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Health Savings Accounts (HSAs) are a hot topic in the employee benefits arena, as employers of all sizes look for ways to control the relentless rise of health insurance costs. HSAs fall under the category of “Consumer-Directed” healthcare plans, which are designed to involve the consumer more in the financing and decision-making process related to the use of healthcare services. Figure 1 shows the average increase in health insurance premiums, workers’ earnings, and overall inflation from 1988 through 2005. In recent years, health insurance premiums have exceeded the rise in workers’ earnings and overall inflation by a wide margin.¹

Employers of all sizes are scrambling to find a health insurance model that will lower the annual increase of health insurance premiums. Employers are moving away from tightly managed health maintenance organizations (HMOs) due to rising costs for comprehensive first-dollar paid benefits and employee desire to choose providers when healthcare services are needed. This has resulted in preferred provider organizations (PPOs) becoming the dominant form of health plan design in the United States.² PPOs allow greater choice of providers for healthcare services but lack the cost controls that most HMOs provide for expensive services in the areas of utilization control and case management.

The Establishment and Growth of HSAs
HSAs came into existence through Title XII of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003. This provision authorized the establishment of HSAs starting January 1, 2004. HSAs combine a qualified high deductible health plan design with a savings and investment vehicle that allows both individuals and employers to make tax-deductible contributions to the HSA. Funds in the HSA accumulate tax-free and when qualified expenses are paid from the HSA, the individual account owner does not pay taxes on the distribution. Tax professionals refer to the unique tax advantages of the HSA as the “triple crown” of taxation (defined as tax-free contributions, tax-free earnings accumulation, and tax-free disbursement).

HSA investment options are similar to those available for IRA and 401(k) plans. Figure 2 (page 24) provides an illustration of how the two necessary components of an HSA work to provide high deductible, catastrophic health insurance and a savings/investment vehicle to pay for health expenses authorized for payment under IRS Section 213d. Common allowable expenses include plan deductibles, coinsurance and healthcare services that may not be covered under the health insurance plan. IRS permits a few additional HSA-eligible expenses beyond the scope of Section 213d, which include payment for long term care insurance, COBRA, and Medicare premiums. These additional expense provisions are intended to provide HSA account owners with additional flexibility in spending HSA balances on a tax-free basis.

Since inception in January 2004, HSAs have experienced explosive growth. In a study published by America’s Health Insurance Plans, HSAs crossed the one million covered lives mark in March 2005.³ What’s even more noteworthy is that this growth represents a doubling of coverage in a six-month period from September 2004. As a result of rapid enrollment growth, HSAs are increasingly becoming an employee health insurance option. To encourage employee selection of an HSA, employers will typically require employees to pay significantly

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¹ The 2005 Kaiser/HRET Annual Employer Health Benefits Survey, Kaiser Family Foundation and the Health Research and Educational Trust
³ Number of HSA Plans Exceeded One Million in March 2005, America’s Health Insurance Plans; www.ahip.org

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Figure 1

Source: KFF/HRET Survey of Employer-Sponsored Health Benefits: 2005
less for premiums than for traditional health insurance plans and will often contribute a fixed dollar amount to the employee's HSA. Unlike Health Reimbursement Arrangements (HRAs) that came into existence in 2002, HSAs are controlled and owned by the employee. All sources of fund contributions (from employee or employer) are owned by the employee.4

**HSA Plan Design is Unique and Structured by Law**

Title XII of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 established mandates for HSA plan design. These mandates have resulted in common elements that must be part of every qualified high deductible health plan. Key plan design elements required by Title XII include:

- **Deductibles**—for 2006, the minimum deductible allowable is $1,050 for single coverage and $2,100 for family coverage. (Minimum deductible amounts are indexed annually for inflation.)
- **Combined deductible and coinsurance maximum**—for 2006, these amounts combined cannot exceed $5,250 for single coverage and $10,500 for family coverage. (Combined deductible and coinsurance maximums are indexed annually for inflation.)
- **Elimination of fixed dollar copays before deductible is met**—Fixed dollar copays for physician and emergency services are not allowed before the plan deductible is satisfied, although physician and emergency services are covered plan benefits that are subject to the deductible and applicable coinsurance.
- **Prescription drug benefits**—most prescription drugs must be subject to the medical plan deductible before benefits are paid. This is a huge change for most plans. It will also have a significant impact on plan members, who are used to prescription drug benefits being paid on a first-dollar basis without any linkage to the medical plan deductible. By linking prescription drug benefits to the underlying medical plan deductible, most first-dollar prescription drug payments are not permitted for HSA plans.
- **Wellness benefits**—This provision allows annual physicals and specified health screenings to be covered by the plan at 100% before the deductible is applied to encourage individuals to seek routine physicals and health screenings. (Note that a handful of prescription drugs fall under this category, but many health insurance plans do not cover these drugs under the first-dollar wellness benefit program.)

**Who are Good Candidates for HSAs?**

I've had the opportunity since early 2004 to meet with over 100 employers ranging in size from the sole proprietor to the Fortune 500 to discuss HSA plans in detail. What I've discovered are common elements that indicate whether an employer should consider introduction of an HSA to its workforce. Figure 3 lists factors to consider before choosing an HSA. Answering in the affirmative to most of these statements indicates that the organization is positioned to gain employee acceptance for an HSA offering.5

**Communication is Critical for HSA Success**

Organizations that embark on the HSA path must commit to intense, ongoing employee communications to ensure understanding of the HSA plan's numerous complexities. Effective communication is required to foster employee understanding and acceptance of the HSA plan. There are two complex topics for employees to understand with HSAs. The first involves the unique HSA health insurance plan design requirements that result in the HSA being much different from traditional health insurance plans in several key areas. The second involves explanation of how the HSA savings/investment vehicle works. The employer will also need to choose a trustee (typically a bank or mutual fund company) to handle the deposit and investment of HSA funds. A Visa or MasterCard debit card is typically used for employee access to HSA funds for payment of qualified medical expenses. Like a 401(k) plan, the employee account owner is responsible for choosing the appropriate investment options for HSA funds.

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5 Statements developed by Jeff S. Rubleski, MBA, based on in-depth interviews with health insurance plan sponsors.
Due to the complexities of HSAs, most employers should consider introducing an HSA with an existing health plan option to give employees a choice of plan design. This will allow the “early adaptors” to try the HSA and give the organization time to assess the impact of the HSA on employee satisfaction and cost savings. Since the high deductible plan design should result in significant premium savings, participants should be rewarded through lower premium contributions and fixed or matching employer contributions to their HSA. These positive financial incentives should encourage voluntary employee HSA plan participation.

**Will HSAs Lower Healthcare Costs?**
Proponents of HSAs believe that when consumers spend their first dollars for healthcare (from their HSA), consumers will be more prudent in their management of medical expenses. This anticipated consumer involvement is expected to produce lower medical cost and better quality outcomes. Proponents also believe that HSA account owners will demand more “transparency” in quality and pricing for medical services, resulting in price reductions and quality enhancements for needed medical services.6

Critics of HSAs point out that the plan design of HSAs does little to help those who need healthcare the most. Critics argue that HSAs represent a significant cost shift of health insurance payment responsibility from the employer to the employee. Critics charge that the financial benefits of HSAs will accrue mainly to the healthiest and wealthiest employees and that older and less financially secure employees will bear a disproportionate financial and emotional burden under the high deductible plan design requirements of an HSA.

**What Does the Future Hold?**
Nobody knows for sure whether HSAs will deliver anticipated cost savings and improvement in healthcare outcomes. At a minimum, HSAs will allow employers to shift more healthcare financing responsibility to employees through higher deductibles and the availability of tax-advantaged HSA savings/investments accounts. It will take a few years of actuarial study to determine whether HSAs will have a significant impact on health insurance premium increases. With healthcare costs representing an ever-growing percentage of every organization’s operating budget, the current system of health insurance financing and use of medical services must go through comprehensive change for most businesses to remain competitive in a global economy. Business leaders must be prepared to embrace radical change in the financing and delivery of health insurance benefits to remain competitive in the years ahead. Moving forward, it does appear that businesses of all sizes will look to their employees to assume more financial and personal responsibility to help solve the challenge of ever-rising health insurance premiums. With more consumer financial and personal involvement in healthcare decision-making, perhaps HSAs will prove to be a sustainable health insurance model that will give businesses the ability to control future increases in health insurance premiums. Only time will show whether HSAs will deliver anticipated cost-saving results.

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**Good Candidates for HSAs**

- Employees have access to the Internet for researching health benefit options.
- Employees typically are not covered by a collective bargaining agreement.
- Employees pay significant percent of health insurance premium.
- In-network deductibles and member coinsurance payments are in current plan design.
- Average employee receives competitive compensation.
- Company promotes an active culture of employee wellness.
- Company has a Section 125 plan in place.
- Company demographics are favorable.
- Company plans to make a fixed contribution or a matching contribution to the employee’s HSA account.

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Free Trade with Thailand — A New Threat for Michigan?

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In 2003, President Bush announced that the U.S. would enter into trade negotiations with Thailand for a possible U.S.-Thailand Free Trade Agreement (UST-FTA). This is part of the President’s desire to develop closer economic ties with the 10 ASEAN countries (Association of Southeast Asian Nations). The fifth round of negotiations for this FTA was completed in September 2005. The U.S. trade representatives hope to finalize the details of the agreement in early 2006, after which it would need to go to Congress to be ratified.

At first look, a trade agreement with Thailand would seem to be of little consequence for the U.S., as Thailand is only our 16th largest importer and 23rd largest export market. Thailand might seem similarly inconsequential for Michigan — Thailand accounts for only $132 million of state exports in 2004, making it our 25th largest export market (out of total Michigan exports of $36 billion). Of Michigan’s exports to Thailand, 80% are chemical manufactures, transportation equipment, and machinery.

For Thailand, the benefits of an FTA with the U.S. seem more obvious. The U.S. is the top destination for Thai exports, its third largest importer, and its second largest foreign investor. The U.S. Embassy in Bangkok estimates that the total present value of U.S. investments in Thailand is over $21 billion, and U.S. Foreign Direct Investment in Thailand in 2004 totaled $112 million. U.S. investments in Thailand are concentrated in the petrochemical, finance, automobile, and electronics industries.

The consequences of such an FTA for the U.S., and particularly Michigan, are much more striking when you hear the nickname that some give to Thailand — The Detroit of Asia. Over the last decade, Thailand has grown to become a large regional, and indeed global, automobile manufacturer. Thailand is the world’s second largest producer of pick-up trucks. All of the light pick-ups manufactured in Asia by Toyota, Isuzu, and Mitsubishi, are made in Thailand.

And although the dominant market share is from Japanese manufacturers (there are no purely Thai auto companies), Thailand’s auto industry is not monopolized by Japan. U.S. auto manufacturers have invested heavily in Thailand. The first auto assembly company in Thailand was a joint venture between Ford and Britain’s Inchcape Group back in 1961. Ford and Mazda have developed a $1 billion joint venture in Thailand during the last decade, and General Motor's Thai subsidiary (GM-Thailand) was the first manufacturer to export Thai-made vehicles to Japan.

To date, the automotive trade between Thailand and the U.S. has been relatively small — U.S. exports of motor vehicles and parts to Thailand amounted to less than $102 million in 2004, while U.S. imports of auto parts from Thailand in 2004 were just over $318 million. (The volume of U.S. imports of motor vehicles from Thailand is so low — less than $20,000 in 2004 — that it’s not shown in the accompanying chart.)

The looming problem for Detroit is that the U.S. has a 25% tariff on imported pick-up trucks. Because the FTA has not been finalized, we don’t yet know the specifics for auto trade with Thailand (although agreements like NAFTA and CAFTA have “free trade” in their title, there are usually some products for which trade barriers remain). However, this import tariff was eliminated/phased out under NAFTA, CAFTA, and the U.S.-Australia Free Trade Agreement, so it is likely that the tariff will be reduced, if not eliminated, if a UST-FTA goes through.

There is some good news though, because Thailand is also the world’s second largest consumer of pick-up trucks. About 60% of new vehicle sales in Thailand are pick-up trucks, with more than 72% of these sales coming from Isuzu and Toyota. Additionally, Thailand’s current tariff on imported passenger vehicles is 80% (40–60% for commercial vehicles). Reduction/removal of these tariffs under the FTA would be beneficial for U.S. automakers and parts manufacturers.
If the U.S. and Thai auto markets are liberalized by the UST-FTA, the impact on the U.S. auto industry could be extensive. This doesn’t necessarily mean that the auto manufacturing companies themselves will suffer—we could experience a substantial volume of imports of Thai-made trucks coming from the Thailand subsidiaries of Ford, GM, and the Japanese companies that also have operations here in the U.S. This switching of production from the Midwest to Thailand would be an additional blow to American workers in these companies.

It’s also likely that the above impact would not instantaneously follow the passing of a UST-FTA into law. The U.S. and Thai auto tariffs would probably not be removed immediately—tariffs on U.S. autos and auto parts are being phased out over five years under CAFTA, and a similar (or even longer) phase-out period is to be expected with Thailand. This would give manufacturers time to make adaptations to their current models to reflect different tastes as well as different safety and emissions standards.

The impact of a UST-FTA on Delphi and other auto parts manufacturers is a double-edged sword. The opening up of Thailand’s large auto market is a potential boon for sales to manufacturers and consumers there, but there will also be increased competition in the U.S. from Thai parts suppliers.

With the continued concern about Michigan’s economy in general, and the auto industry in particular, it might be tempting to oppose the passage of a UST-FTA, but we should tread that path carefully. In the last few years, Thailand has entered into trade agreements of varying scopes with China, India, and Australia. An FTA between Thailand and Japan that will reduce trade barriers in their auto industries over the next few years is being finalized. This will be bad news for the U.S. auto companies with operations in Thailand, as it will put them at a competitive disadvantage with their already dominant Japanese rivals. The UST-FTA could help redress this imbalance.
How Economically Literate Are You?

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John Nader, Instructor, Department of Economics, Seidman College of Business

How much do Americans know about economics? Recent surveys point out that the answer to this question is “not nearly enough.” Results have illustrated gaps in understanding of even the most basic of economics principles. The lack of understanding isn’t limited to the general public; even current and former economics students have done poorly answering questions that check their general knowledge.

In 1999, Harris Interactive (then known as Louis Harris & Associates, Inc.) conducted The Standards in Economics Survey on behalf of the National Council on Economic Education (NCEE). The survey was designed to evaluate adult and student understanding of basic economics as outlined in the Voluntary National Content Standards in Economics, developed and published by NCEE in 1997.

In 2005, at the request of NCEE, Harris Interactive conducted a follow-up study to examine adult and student current understanding, and how this has changed since 1999. The 2005 survey also included an additional set of questions focused on personal finance.

Nine out of ten adults and students surveyed believe it is important for all people in the United States to have a good understanding of economics. Virtually all adults believe economics should be included in high school education, though only half of high school students say they have ever been taught economics in school (Harris, 2005). The Michigan MEAP test now includes a section on economics. Evidence of the increased interest in economics can be seen on U.S. college campuses. The Wall Street Journal reports that the number of bachelor degrees awarded in economics at 272 colleges and universities around the U.S. in the 2003–2004 academic year was 16,141, up nearly 40% from five years earlier (WSJ, July 5, 2005).

The increased interest in economics may be as simple as a cyclical return to the discipline away from other areas such as sociology, which saw growth in the early 1990s. Students may be realizing that a background in a quantitative field like economics can dramatically increase job prospects. The popularity of a recent book, Freakonomics, by University of Chicago economist Steven Levitt, shows that economics can be applied to a wide range of issues which can generate interests in many students to explore economics to greater depths.

Results of the 2005 Harris survey found that despite the interest in and general belief in the value of economics, most adults and students have not mastered the basic economic concepts. Adults and students were given a 24-question quiz. The quiz covered the 20 economic content standards developed by NCEE, plus additional concepts related to personal finance. Based on this quiz, adults got a grade of 70 (C) and students a grade of 53 (F). Six in ten high school students and more than one-quarter of adults got a failing grade on the economics quiz. One-third of adults and only one in eleven high school students got an A or B grade. (Harris, 2005).

The quiz covered the essential principles of economics including topics such as scarcity of resources, allocation of goods and services, the roles of competition and money, and specialization and trade. Considering the continual globalization of the U.S. economy, the last two topics are of increasing importance.

The quiz results revealed that both adults and students could use improvement in the area of personal finance. Adults who are college graduates earn about 70% more annually (on average) than adults who are only high school graduates. Most respondents underestimated the importance of a college degree on earnings. This is certainly information that colleges and high school counselors should make a point of disseminating. Half of adults and even fewer students did not know that keeping savings as cash has the greatest risk of losing value due to inflation.

The results of the survey also revealed differences in knowledge across gender, race, and education. Fewer adult women (average quiz score 63) than adult men (average score 78) show a good understanding of economics. Adult Whites had a higher score (72) than Blacks (61) or Hispanics (64). Adult college graduates had a higher score (82) compared to adults with some college (72) and adults with a high school degree or less (61). These results carry over to students. Male students had an average score of 56 compared to female students’ score of 49. The average scores for White, Black and Hispanic students were 55, 45, and 50 respectively.

The good news is the results of the 2005 survey do show improvement over the 1999 results, yet there is still a long way to go. Anne Krueger, the First Deputy Managing Director of the International Monetary Fund, delivering the keynote address at the 2005 annual conference of the National Council on Economic Education focused on the importance of economic education:

“… The more the population at large understands about economic issues, the more sensible and informed will be the discussion about economic policy issues affecting the national economy and the better will be the policy decisions that are taken. Fewer than half of the students—according to the
NCEE survey know what a budget deficit is. Only a quarter of students and fewer than half of all adults know what we mean by Gross Domestic Product. When such concepts elude many citizens, it is difficult for policymakers and political leaders to set out their arguments for specific economic policies in a way that offers a balanced assessment of the costs and benefits of a particular policy option. Instead, the economic policy discussion tends to be selective and unduly simplistic, often focusing on the short term, and perhaps even erroneous, implications of a course of action…” (IMF, Oct. 07/ 2005).

We may have the unfortunate opportunity to experience the consequences of economic illiteracy. The recent devastation caused by hurricane Katrina has many people clamoring for government to rebuild hard hit areas as soon as possible. On the surface this is a noble pursuit. There is an understandable desire to want to help people and respond rapidly. At the same time, economics provides us with an analytical framework to consider an undertaking of this magnitude. Economics considers the allocation of scarce resources. Consider the intensity of the rebuilding efforts being discussed by the various governmental agencies. Ramping up building efforts to this level in a short period of time may not be feasible. There will likely be enormous pressures on the supplies of raw materials pushing up prices. The search for sufficient numbers of skilled workers will drive up wages for these workers. It is highly unlikely that this much construction can happen in that short a period of time.

Construction activity intensified in this way is likely to lead to shortages. An unintended consequence is that a lot of the funds allocated for this work will not go for more houses, buildings, roads, etc., but for rising costs. However much we want to help in the days following national disasters, we have to remember that there are capacity constraints. Resources are scarce. This is something many people do not understand or want to consider. What are called for are realistic and achievable goals.

We can apply the same framework to the war in Iraq or the proposed manned space missions to Mars. Perhaps it is the lack of understanding of budget deficits that has many people believing we are somehow escaping the cost of these programs. The cost would be obvious if people were billed for them. Imagine receiving an annual bill of $1,200.00 for your share of the war’s cost to date. How might this impact the support for the war? In reality there is no bill, and taxes were actually reduced for many. The true cost will be borne by those having to pay higher rates of interest in the future and not having the benefit from the productive capital that otherwise could have been. This will result in an overall lower standard of living. Along the same lines, many people believe that there isn’t a cost for a doctor office visit or a prescription because they have health insurance. What is the cost? Economics requires that consideration be given to the scarcity of resources and the realization that the efficient allocation of these resources requires that people are willing to pay an amount that at least equals the cost of providing the resource. You can certainly question how many people would have visited the doctor or requested the prescription if they had to pay the full price. If the answer is fewer, then too many resources are being misallocated toward health care. So the cost is the other goods and services we could have had, the proverbial no free lunch often referred to by economists.

Economic illiteracy can also be seen in many ideas that people generally believe to be true but don’t hold up to sound economic reasoning. Thinking again of natural disasters, how many times do we hear that “at least one positive from the devastation is that the economies in these areas will be stimulated.” NO! As Henry Hazlett, author of Economics in One Easy Lesson put it, “…if you carry this thought to its logical conclusion, one could theoretically put the economy through the roof by hiring millions of people to dig holes and then fill them up again!” Here we see the lack of understanding of Gross Domestic Product (GDP). While it is true that GDP may rise from all of the rebuilding, GDP does not measure the loss of buildings, roads, and houses caused by the devastation. Overall we are worse off. Using the same flawed reasoning, the people of Paris, France should be heartened by the realization of the many new jobs that will be created repairing the damage from the recent riots.

One of the authors asked the students in an economics principles class about the attractiveness of an investment that offered a 15–20% return on funds invested. Many responded favorably suggesting this was a very attractive offer. Yet when it was suggested that if they had credit card debt they could pay off their balances and save 15–20% in interest, they reacted with a bit of disgust, as if they had been tricked. It seems that many couldn’t grasp the basic concept that interest not paid is the same as interest earned. In the same reasoning, if someone is given a ticket to the Superbowl, it will cost them the same to go to the game as someone who paid for their ticket. In either case the decision is the same, go to the game or have the thousands of dollars that Superbowl tickets could be sold for.

Consider Matt Leinart, the Heismann winning quarterback for the National Champion USC Trojans, who could also receive the award for paying the highest tuition of any college student in the country. Assuming that he could sign for what Eli Manning did two years prior, he is paying close to five million dollars for his one class this fall semester (ballroom dancing!). One has to hope he is getting close to five million dollars of fun playing this year for USC!

As economics teachers can tell you, it is hard teaching students about trade-offs. Many young people have the good fortune of growing up without budget constraints (their parents face these), and opportunity cost is not clear to them. But as we often are fond of telling our students, just because something is difficult to do, that is not a valid excuse for not doing it. In this case, it is especially true since economic illiteracy isn’t just an inconvenience, it can be quite dangerous.
If you know successful entrepreneurs, nominate them today! Submit the form below for the Lake Michigan Area program and call (312) 879-3038 or visit www.ey.com/US/eoy for more information. Join other candidates from West Michigan, Illinois, Indiana, and Wisconsin, as the **Ernst & Young Entrepreneur Of The Year** Program celebrates its 20th anniversary.

Completed nominations are due March 31, 2006.

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**Nominator**

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Please complete and return form by March 31, 2006 to:

Attention: Brad Freiburger
Ernst & Young LLP
171 Monroe Ave., NW, Suite 1000
Grand Rapids, MI 49503

Or — fax form to (866) 703-0274.
Or — visit our Website at www.ey.com/US/eoy for downloadable forms or electronic submission.

Upon receipt of this nomination form, a complete kit will be sent directly to your nominee.

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